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How  
U.S. COTTON  
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FOREIGN AGRICULTURAL SERVICE

U. S. DEPARTMENT OF AGRICULTURE //



## PREFACE

Since the end of World War II, exports of United States cotton have fluctuated considerably each cotton season. In 1959-60 they are expected to be much higher than in 1958-59, when they showed a figure of 2,790,000 running bales. The highest export figure of the postwar period was reached in 1956-57 with 7,598,000 running bales; the lowest, in 1947-48, with 1,968,000. Stiff competition from foreign cotton and manmade fibers has been responsible for these fluctuations. Special United States cotton export programs have remedied this situation from time to time, but the position of the American cotton exporter has been difficult.

This paper is mainly based on normal times. However, it should be useful to those who want to know what is involved in selling United States cotton abroad. The author acknowledges the advice and suggestions of many people actively engaged in the cotton export trade, as well as some former cotton people now in government.

December 1959  
and July 1960  
(slightly revised)

This pamphlet was revised in May, 1962 to bring up to date the section on cotton-buying practices in foreign countries and to add a section about Public Law 480 and other government programs which are used fairly extensively today to finance exports of U. S. cotton. The sources of the material on Public Law 480 and the CCC credit program are the Program Operations Division, the General Sales Manager, and the Barter and Stockpiling Manager, all of the Foreign Agricultural Service. The material on Export-Import Bank credit was prepared by that agency.

May 1962

Changes in the cotton buying practices in foreign countries, changes in the Public Law 480 regulations, and additions to some sections of this pamphlet, made a revision in 1963 necessary. An appendix was added, showing exports of U.S. cotton by countries of destination, the world's cotton spindles, and universal and official U.S. cotton standards.

July 1963

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# HOW U. S. COTTON IS SOLD FOR EXPORT

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## ORGANIZATION OF THE U. S. COTTON TRADE

The U. S. cotton trade comprises all the firms or individuals handling the buying, selling, and shipping of cotton from the time it is ginned until it reaches the mill door.

The marketing of cotton begins, in many cases, almost as soon as lint cotton is baled at the gins, though some farmers retain possession of the bales until a later date. Frequently the bales are bought at the gin by ginners, country buyers for cotton merchants, mill buyers, and country merchants. If farmers who retain the bales do not put their cotton into the government loan, they may give samples of the cotton later to a spot broker in a bigger market for selling on a commission basis. Ginners who buy the cotton they gin may wait until they accumulate a certain number of bales before selling them to mill buyers, country buyers for merchants, and country merchants. Ginners may also give their cotton to spot cotton brokers for sale. Cotton in the hands of the country merchants is sold also to mill buyers and country buyers for merchants. Usually cotton bought by mill buyers is not further resold and finds its way into consumption.

Spot cotton brokers offer for sale cotton belonging to farmers, ginners, and, at times, to cotton merchants. The latter use a spot cotton broker to sell lots of cotton which they wish to dispose of locally. The main business of spot cotton brokers is dealing with actual cotton, i. e., selling the cotton on actual samples of each bale, but they also do business for cotton merchants on a forward delivery and "guaranteed through" basis. This means that cotton merchants may offer cotton for sale for later delivery through spot cotton brokers, with the quality and weights guaranteed through to destination. The outlets of a spot cotton broker are mill buyers and city buyers for cotton merchants.

The cotton merchants, who are the main subject of this discussion, do the bulk of the selling to U. S. mills and for export. Of course, they do some selling among themselves at times when the cotton needed cannot be found at the gins, with the farmers, or, today in particular, in CCC stocks.

After ginning, the cotton is compressed into flat bales of 12 pounds per cubic foot; the bales are usually shipped to a public interior warehouse for storing or for compressing in transit--to standard density (23 pounds per cubic foot) if the cotton is destined to a domestic mill, or to high density (33 pounds per cubic foot) if it is to be exported. Cotton delivered to a mill near a gin may be shipped as flat bales. Domestic mills require standard-density or flat bales. When a warehouse receives cotton for storage, the flat bales are sometimes compressed immediately to standard or high density in order to save storage space. All the warehouses at the ports have both standard-density and high-density presses; some in the interior have only standard-density presses. Merchants at times move cotton from several warehouses to one central one in order to concentrate their stocks and facilitate shipments of carloads.

Following World War II, there has been a modest, yet slowly increasing, adoption of new designs of bale presses by ginners, particularly in the West. These newer types of presses turn out bales that are as dense or denser than the standard density bales compressed at warehouses. This process eliminates the flat bales at the gins.

The services performed at a warehouse, besides compressing and storing, include sampling, weighing, patching (repairing the cover of the bale and applying new cover, material, or patches or markers), marking (stenciling identification mark), banding,



and replacing or repairing bands. The warehouses issue negotiable warehouse receipts for the cotton stored; these the owners of the cotton can use as collateral against loans on the cotton from the banks or the government. Also, title to the cotton represented by the receipt is frequently transferred from the original depositor to subsequent owners by the negotiator of the receipts. The warehouses attend also to loading of bales on railroad cars or trucks. Some of the merchants own warehouses which usually store cotton for other persons besides the owners. Most warehouses are bonded.

Cotton is an expensive commodity, and merchants handling large stocks require a great deal of bank financing. Usually the capital of a cotton merchant represents only a small fraction of the value of his total turnover. The banks are usually willing to finance a fairly large percentage (about 85 percent) of the value of a bale of cotton, but they keep a close check on the quality of the bales pledged as collateral. Payment for cotton sold to a U. S. mill is usually made by sight draft on the mill or by check against bill of lading and other documents. The cotton exported is usually paid for by sight draft against irrevocable letters of credit, though other terms might be used (see the section on sales terms). Cotton traded between merchants in the same locality is paid for by check against warehouse receipts or bills of lading. Cotton sold by farmers, ginnermen, and country merchants is paid for by check or sight draft against warehouse receipts or bills of lading evidencing shipment of the cotton to a warehouse or a mill.

Practically all cotton merchants and cotton brokers are members of the American Cotton Shippers Association, whose headquarters are located in Memphis, Tenn. The various areas of the Cotton Belt have their own cotton associations, as follows:

Georgia, Alabama, North and South Carolina, Virginia, Florida:  
Atlantic Cotton Association, Atlanta, Ga.

Mississippi, Louisiana, Tennessee:  
Southern Cotton Association, Memphis, Tenn.

Arkansas, Missouri:  
Arkansas-Missouri Cotton Trade Association, Little Rock, Ark.

Texas:  
The Texas Cotton Association, Waco, Texas

Oklahoma:  
The Oklahoma State Cotton Exchange, Oklahoma City, Okla.

New Mexico, Arizona, California:  
Western Cotton Shippers Association, Los Angeles, Calif.

These six associations are in turn affiliated with the American Cotton Shippers Association. This latter association has a great many associate members who are not cotton people but bankers, steamship companies, freight brokers, insurance people, warehouse companies, and the like.

## WHO EXPORTS COTTON

U. S. cotton merchants do not all participate in the export trade. Some of them confine their business to selling cotton locally and to U. S. cotton mills. A few do only an export business. However, after World War II some cotton merchandising firms which had never exported before went into the export business. The International Cooperation Administration and its predecessors and Public Law 480 programs have probably been responsible for this, because they have facilitated the financing of cotton exports abroad. The system of financing under these programs, when letters of commitment are used, has eliminated the risk to the exporter; finances are available at once, and the exporter does not need to wait for payment as he might have had to do before such programs were inaugurated.

For the purpose of this discussion, all cotton merchants who export at all will be referred to as "exporters."



The principal cotton markets where such exporters are located are: Atlanta, Ga.; Montgomery, Ala.; Memphis, Tenn.; Greenwood, Miss.; New Orleans, La.; Galveston, Houston, Dallas, Lubbock, and El Paso, Tex.; Phoenix, Ariz.; Los Angeles, Bakersfield, and Fresno, Calif. There are also some exporters in other cities located all over the Cotton Belt, from the East Coast to the West Coast.

Since this paper is to deal mainly with export trade practices, the activities of an exporter prior to offering cotton for export will not be discussed in detail except when they are important to a certain phase of the export trade. These activities, however, have been briefly discussed in the opening paragraphs of this paper.

It should be said at the outset of this discussion that not every cotton exporter covers all the available export markets for United States cotton or offers all varieties and growths produced throughout the United States. Some exporters concentrate only on certain areas or certain countries of the world; some, on certain United States growths. An exporting firm might sell only in a few of the 50-odd foreign countries using United States cotton. It is difficult and expensive to serve 50 or more foreign countries well. Some of these countries are small markets, and the cost of servicing them is prohibitive. A number of American firms handle, besides U. S. cotton, other growths such as Mexican, Brazilian, Peruvian, Central American, etc. Formerly some U. S. firms handled Egyptian cotton, but due to the nationalization of the cotton trade in Egypt, have withdrawn.

Today the number of bales exported annually by cotton firms varies from less than 1,000 bales per firm to well over one million bales. The number of firms exporting over 100,000 bales is small. The greatest number is to be found in the group exporting 15,000 to 100,000. A few, of course, export less than 5,000 bales. Before World War II there were cotton firms handling well over one million bales.

The number of cotton firms has declined since the early 1950's.

Some exporters trade in export markets under trade names as well as their own. For a trade name, an exporter usually engages agents different from the ones he uses for his own firm. The main purpose of having trade names is to have wider outlets; an agent does not or cannot always sell to all clients in a country. There are many exporters, however, who do not feel that trade names are necessary.

Another kind of exporter who works with a very small staff or by himself should be mentioned. He buys cotton from merchants or exporters on the same terms that he sells it to foreign clients. He could be called either a buying or a selling agent, and makes only a commission on such sales. All the shipping documents are made out in his name. The quality, weight, tare, and so forth, are "guaranteed through" to destination by the seller. The buying agent pays the seller upon presentation of all the shipping documents and draws a draft, with these documents attached, on his foreign client. The turnover done on this basis is very small compared with the exporters' direct business with foreign connections.

There are also some general import-export firms which handle all kinds of commodities and materials and which buy cotton for export on a "guaranteed through" basis, as above outlined, from merchants or exporters because they are not equipped to buy it firsthand in the country as regular cotton exporters do. Some of these transactions might at times be connected with a barter deal. Most of these firms are located in New York City.

## ESTABLISHING CONNECTIONS ABROAD

The cotton export business involves greater expenses than domestic business before a sale is made because the greater distances involved mean higher telegraphic and telephonic costs and larger transportation expenses for trips and forwarding samples and types. To make a sale abroad, an exporter must establish a connection with an agent or merchant (importer) or mill. In new cotton-consuming countries it is difficult to find qualified cotton-selling agents; there direct mill connections may be established. Normally one trip or more abroad is made in order to establish satisfactory connections and

learn about the usual terms of the trade in a particular country, the quality requirements of the mills, and the like. The foreign connection must be supplied with type samples if some business is to be done on exporters' private types instead of Universal Standards. If the exporter has to submit types to match specific requirements of a mill, he needs considerable time for their preparation and approval. The exporter may also want to prepare types to represent certain cottons he specializes in. A working agreement is usually signed between the exporter and the agent, foreign merchant, or foreign mill. This working agreement covers matters such as the rate of commission, an understanding about the method of offering, the telegraph code or codes to be used, the duration of the contract, and the expenses to be borne by each party. These arrangements require a lot of work and consume much time. Each exporter has his own ideas about the form of such an agreement, and there is no standard form of contract.

The large exporting firms may have their own branches or affiliates in some countries. Some firms have a central office in charge of all agents in the countries of a certain area. In the export trade most of the business is done through agents of the exporters abroad, and only a small percentage of the business is done through direct connections with foreign merchants or mills. Since World War II, some countries have bought their cotton requirements through government agencies direct from the exporter. A direct mill business is often done in countries where the number of mills is limited or a new textile industry is being developed. To conduct a successful business abroad and keep the personal contact alive, regular trips are beneficial. Of course, foreign importers and mill people also pay visits to the United States exporters.

The cotton export business involves a constant study of the prices of competing foreign growth like Mexicans, Brazilians, Central Americans, Syrians, Greeks, Egyptians, and others, as well as of the financial position of the foreign cotton-consuming countries. In recent years United States foreign aid and surplus disposal programs have been of great importance to the United States cotton exporters, who closely watch the news from Washington about such programs.

Many United States cotton exporters also handle Mexican cotton. As a matter of fact, the bulk of the Mexican cotton export business is in the hands of United States cotton exporters. Until about ten years ago, most of Mexico's cotton exports went through United States ports, mainly Brownsville, Texas, and San Diego, Calif.; however, in 1961-62, about 70 percent was exported through Guaymas and Ensanada, on the Mexican west coast. Mexican cotton is sold for export on the same terms as United States cotton.

## METHODS OF OFFERING COTTON

When all selling arrangements have been completed, the exporter is ready to offer cotton to his agent, the foreign merchant, or the foreign mill, depending on the connection he has made in the foreign country. There are two kinds of offers: regular, or "good until cancelled," and special, or "good for a specified length of time." Instead of regular offers, some exporters send out quotation lists. Of course quotations are not firm offers but merely indications of price. Exporters also make offers "subject to confirmation." This happens when certain qualities are scarce or an exporter has the same qualities under offer elsewhere. Today actual business is mostly done as a result of special offers because of dollar shortages and keen competition from foreign cotton-growing countries. Therefore, foreign importers tend to buy the cheapest cotton available.

The present CCC export sales programs have changed--though perhaps only temporarily--the traditional system of offering cotton "on call" and making sales "on call." This is the practice where only premiums or discounts "on" or "off" a certain futures month for the various grades and staples are established, while the price of the basic futures month may remain unfixed until a certain time. This change is due to the fact that CCC sells its cotton at fixed prices, i.e., where the basis ("ons" or "offs") and the price of the basic futures month have both been established. "Fixed" prices are also called "final" prices. However, in order to describe the usual practices of the cotton trade, this paper will also mention "on call" business, because occasionally both export and domestic sales are still made on this basis. Even though most of the business is



done today at fixed or final prices, the basis ("on" and "off" the futures month) remains important to the exporter or the cotton merchant in general, because he watches the changes in premiums and discounts ("ons" and "offs") for the various grades and staples very closely and thinks in these terms.

In addition to the price, all offers or quotations specify the quantity, the quality, the terms (delivery and payment), the shipment, the arrival or the delivery periods, and the period for which the offers are good.

Prior to the CCC export sales programs, most offers were made "on call." When a sale is made "on call" it is necessary to watch for the specified fixation time or the expiration date of the futures month. This means that the price of the basic futures month must be established at a certain time, or, in trade parlance, the price must be "fixed" or "called." Upon agreement between seller and buyer, the basic futures month before the price is fixed can be transferred to another one at the proper differences between the original and the new basic futures month. These differences plus the futures commission paid for the transfer of the futures contracts are reflected in the basis ("ons" and "offs"). This might happen if the buyer for some reason wants to postpone the fixing of the price of the futures month, as for instance when a mill has no yarn or cloth sale against a purchase of actual cotton. A mill would buy actual cotton ahead of a yarn and cloth sale, wishing to secure the basis (as premiums and discounts are called in the cotton trade) while it is low. On the other hand, if a mill considers the cotton futures month low, it would buy futures instead of actual cotton. The futures would then be sold when the mill buys spot (actual) cotton and it fixes the price of the futures month of its cotton purchase.

The seller (exporter) may give price-fixing instructions to the buyer for an "on call" sale; i. e., he may instruct the buyer to buy futures contracts through a certain futures broker when the price of the sale is to be fixed.

At times exporters allow a certain discretion (so many points<sup>1</sup> less) on their offers to their agents. This is a concession in order not to lose a sale. The discretion is to be used only when absolutely necessary to close a sale.

Today actual business results mostly from special inquiries for which special offers have been made or from bids which have been received from abroad.

Regular offers or quotation lists are for cottons an exporter either already owns or feels he can buy in the market at a certain price. These offers show only the "ons" and "offs" for the various descriptions. It is usually the larger exporters who make regular offers. The exporter bases these offers on a price which he hopes will bring him his standard rate of profit. Regular offers or quotation lists are usually "good until cancelled." These offers or quotations are more or less an indication of going prices, but do not necessarily represent the lowest prices an exporter will accept. Therefore, very little business results from regular offers. With a large exporter these regular offers may include almost a complete list of all existing descriptions, which comprise grade, color, character, staple, Micronaire fineness, and Pressley strength specifications, plus his entire list of private types. These regular offers also state the premiums required for forward shipments up to 12 months or more. Thus it happens that "new crop" cotton is offered for sale before the crop has begun to be harvested and sometimes before it is planted. In prewar days, sales of cotton were made even 2 or 3 years ahead.

Today a large percentage of the cotton export sales are made on private types, either prepared by the mills or by the exporters. Most types incorporate the grade, color, character, and staple required for the specific type of work done. Exporters' types represent cotton they know certain mills require or represent certain kinds of cotton which cannot be well described in terms of universal standards for United States cotton. At times private types represent only "grade, color, and character" or "grade and color," and the staple is described in terms of official standards. In addition to

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<sup>1</sup> 1 point equals one-hundredth of a U.S. cent.

these features, these types might also represent specific Micronaire or Pressley descriptions. When business is done on type, the type is sealed in the presence of both the buyer and seller or their representatives and used for arbitration purposes. Type business has proved to be very satisfactory, particularly if the types also incorporate staple, because in a type the buyer has before him all the characteristics of the cotton he wishes to buy. Since World War II, the U. S. cotton export business has gone more and more to private types.

With smaller exporters regular offers or quotation lists may represent only a limited range of descriptions or only the descriptions in which he specializes plus his private types. Some exporters do not offer cotton grown beyond the territory of their office or offices. As the cotton season progresses, the number of descriptions included in these regular offers or quotation lists is reduced as the supplies decline or the current crop deteriorates. By that time it is necessary to send out "new crop" offers.

Regular offers, which are also called offer lists, are communicated abroad either by air-mail or by cable, depending on the urgency of the need for such offers. These regular offers are checked daily by the exporters and changes are made daily if necessary. These changes may involve raising or reducing the basis (premiums and discounts) for the various qualities, transferring the basic futures month to another month because of the expiration of the original basic futures month in case of "on call" offers, changing the shipment or delivery periods, altering the number of bales offered, eliminating offers for certain qualities unobtainable, and so on.

Special offers are more specific; i. e., they pertain usually to a specific client who requested an offer for a certain quality or qualities. Special offers represent also offers for cotton an exporter is anxious to sell. An exporter usually figures the price very closely when making a special offer; hence the price is lower than that of regular offers and may also be fixed; thus, the duration of such an offer is usually limited. Even the price of special offers may have to be changed if the market price of the qualities involved has gone up or down suddenly.

Special offers are made for "immediate" or "prompt" reply. "Immediate or prompt reply" means allowing sufficient time to send the cable, contact the buyer, and send a reply back, which in most cases can be achieved within 24 hours but seldom takes more than a week. Sometimes the buyer states that he wants to have the special offers good for a specific length of time.

Some smaller firms that concentrate on domestic business confine their export business to offering only when they have specific export inquiries. In other words, they do not make regular offers.

In pre-World War II days, exporters consigned cotton abroad in anticipation of a demand for certain qualities in a certain country for quick delivery or because some of them wanted to have stocks abroad to offer to foreign buyers to choose from (i. e., the buyer would take only the bales he approved) against sales with "selection clauses," as they are called. This practice has not yet been resumed to the same extent as before the war because war-risk insurance on stocks abroad either cannot be obtained for all countries or is very expensive. Consignments can become a burden when they do not move fairly quickly; it can turn out that the cotton is consigned to the wrong place, and storage charges are usually higher abroad than in the United States. Moving consignments from one country to another is expensive, and from one continent to the other, almost prohibitive. In recent years one of the main reasons for consigning cotton abroad has been the obligation of the exporters to sell the cotton they bought from CCC under the export sales programs within a specified period of time. Hence some of the exporters who had no actual export sales against a purchase of CCC cotton consigned it instead of keeping it in the United States and paying the difference between the export sale price and the domestic price.

Instead of using cable service some exporters use a teletype system with their foreign connections. To countries where there is no censorship, exporters use codes; some have their own private ones. The most popular cotton code is "Buening's," made up by

a German cotton man in Bremen. Others use English cotton codes such as "Bentley's." Coding a cable message requires experience and time, but in long messages like cotton offers the use of a code saves considerable money.

Offers contain the exact terms on which a sale is to be made. These terms vary with each country and with clients in the same country.

## SALES TERMS

The basic terms of a sale contain the following main items: Quantity, quality, price, terms of delivery, destination, shipment or delivery period, insurance, payment, commission (not usually stated in sales confirmations), controllers, and various special clauses. In the following description of sales terms, small sections have also been included about hedging, futures, price calculations, weight, arbitration, and freight, which indirectly bear on the sales terms.

### Quantity

This item is usually expressed in numbers of bales with specified weight limitations to assure a minimum and maximum weight. Often the quantity is expressed in pounds, kilograms, or metric tons.

Since World War II, many government programs, such as International Cooperation Administration and its predecessors, and Public Law 480, have been instituted. Most of the time the allocation of these funds is made by the foreign government to the buyers in terms of monetary figures and not in terms of baleage or weight. Also, the availability of dollars in foreign countries not receiving United States aid establishes the quantity.

The most common bale unit traded in is 100 bales or multiples thereof, although smaller lots are not infrequent, particularly when specialty cotton (usually extra long staple cotton) is involved. However, when the allocation of funds is in terms of monetary value, the quantity of a sale may involve an odd number of bales.

### Quality

Quality descriptions usually include the origin, for example, Memphis territory, Mississippi delta, Orleans/Texas, Texas, California, California/Arizona/New Mexico, or Georgia/Alabama--and sometimes seed--"ACALA," "1517," ACALA "442," etc., in addition to the following:

- a. Description in terms of Universal Standards for grade and color, and United States official standards for staple (see table of cotton standards, pages No. 33 and 34):

Example: Universal Standard Middling Spotted one-inch staple.

- b. Description in terms of private (exporter's or buyer's) type:

Example: Grade, color and staple equal to type BOND or Grade and color equal to type LEBRA one-inch staple.

- c. Description in terms of USDA Form A Certificate:

Example: Universal Standard Middling one-inch USDA Form A Certificate class.

Form A is the classification of samples freshly drawn and submitted before shipment to a USDA classing office direct from a public warehouse at the request of the owner of the cotton or his agent. Such classification or comparison is evidenced by Form A Memorandum. This classification is final.

For over 10 years some of the quality descriptions of United States cotton sales have included more and more Micronaire and Pressley specifications in regard to fineness and strength. As an example, these are stated behind the grade, color, and staple



descriptions as Micronaire minimum 4.0 or a range, Pressley minimum 75,000 pounds. These mean that the cotton must test accordingly, but within certain tolerances which are stated in the sale contract. For these additional specifications, the exporters demand a premium.

## Price

The price is usually expressed in United States cents per pound and is either fixed (final) or "on call." Since the institution of a CCC cotton export sales program, practically all the business is done at a fixed price because CCC sells its cotton at a fixed price.

A fixed price means a price where both the basis (premiums and discounts on or off the futures month) for a certain quality and the price of the futures month are established.

Example: December N. Y. futures..... 32.50 cents per pound  
Basis for a certain quality ..... 5.00 cents on

Fixed price (final price) ..... 37.50 cents per pound

An "on call" price means a price establishing only the basis (premiums or discounts to be deducted from or added to the futures month in example above, "500 on December N. Y.") for a certain grade and staple.

When a sale is made "on call," the contract (sale confirmation) specifies when the futures month must be established. The sale is mostly "buyer's call," which means that the buyer sets a time or level when the price of the futures month is to be established--or, as said in the trade, fixed. However, the contract frequently provides for fixing the price before shipment to avoid making provisional invoices and a price adjustment later. Invoicing cotton at a provisional price makes it necessary to watch the fluctuations of the futures month and call for margins payments if the provisional price has been set too low because the futures month has gone up.

Inprewar days many sales were made in terms of foreign currencies, and even until a few years ago some sales, particularly to Liverpool, were made in pence per pound.

Making sales in currency other than dollars necessitates selling the foreign exchange, i.e., selling a foreign exchange contract for the amount of foreign currency involved to secure the dollar equivalent. Failure to "hedge" the foreign exchange can be as disastrous as failing to hedge the futures month in the price of cotton.

## Hedging

At this point it seems necessary to say a few words about the "hedging" of sales and purchases of cotton. Hedging can be called price insurance, although it is not complete protection because there are two components in the final (fixed) price of cotton. These components are (1) the futures month and (2) the basis (premiums and discounts) for the various qualities at a given location for actual (also called "spot") cotton. A hedge insures only against price fluctuations of the futures month on which the basis of the cotton is based. Futures are sold against a purchase of actual cotton and futures are bought against a sale. There is no proper hedge against the basis (premiums and discounts) for a purchase or sale of actual (spot) cotton, except perhaps to keep an even "basis position," i. e., a position where purchases and sales of actual (spot) cotton bought and sold "on call" and at "fixed price" balance irrespective of quality. An even basis position does, however, minimize the risk.

## Futures

The futures month on which the merchant bases the price of a purchase or sale of actual (spot) cotton for near delivery is normally a near month, i.e., November shipment

on December futures. There are exceptions, of course, when the near month is considered too low or too high depending on whether futures are sold or bought. Forward purchases or sales are normally based on the distant months. The proper placing of hedges, buying or selling cotton futures, is an intricate matter which requires close study.

The cotton futures markets in the United States are New York, New Orleans, and Chicago.

The fluctuations in the United States futures markets are limited to 200 points (or \$10.00 per bale) during the day.

There are also cotton futures markets in Liverpool, Bremen, Le Havre, Bombay, Karachi, Osaka, São Paulo, and Alexandria, UAR (Egypt). U. S. exporters may use Liverpool at times for hedging purposes, but the others are used today only by local cotton merchants.

## Price Calculations

All U. S. cotton is exported high-density compressed for the reason that it saves space on the steamer and the exporter thus obtains a lower freight rate. When an exporter has put his cotton shipside, high-density compressed, he has to add charges for the following items, depending on the terms of the sale:

C.i.f.....	Tare <sup>1</sup>	Freight	Insurance	Sale commission	Payment (bank charges)	Foreign controlling
C.&i.....	...do...	.....	...do....	...do....	...do.....	Do.
C.&f.....	...do...	Freight	.....	...do....	...do.....	Do.
F.o.b., f.a.s..	...do...	.....	.....	...do....	...do.....	Do.

<sup>1</sup> Usually about 4 percent for conversion from gross weight to net weight.

If the sale is made on certified shipping weights or Form A Certificate class or with special marks, or if additional samples are required, or if there are any foreign consular fees on the shipping documents, charges must be added for these.

## Terms of Delivery

The delivery terms cover the basis on which the cotton is to be delivered to the foreign buyer or importer. The commonly used terms for cotton are f.o.b. (free on board) steamer in the United States, f.a.s. (free alongside steamer) in the United States, c.i.f. (cost, insurance, freight) a foreign port; c.&i. (cost and insurance) a foreign port, c.&f. (cost and freight) a foreign port, ex-warehouse abroad (mostly applicable to consignment stocks abroad), f.o.w. (free on wagon) in a foreign country, and f.o.b. (free on board) in a foreign country.

## Weights

In addition to the above terms the method of settling the weights is added, i.e., "actual tare, mutual net landed weights, no franchise" or "certified shipping weights," etc. In the case of mutual net landed weights the weight and the excess tare are established at port of destination by the exporter's and importer's representatives. The exporter appoints a cotton controller to represent him at port of destination at weighing, taring, sampling (also for arbitration purposes if needed), and examining for country damage to cotton, if any. With "certified shipping weights," which are established at port of shipment by United States sworn weighers and are final, there are no claims to be made. The usual tare permitted is about 4 percent, depending on the type of bagging--jute, sugar cloth, or cotton--any any excess can be claimed. "No franchise" means that no variation in weight is allowed. If a variation in weight is allowed, it is expressed in



a percentage figure, i. e., 1/2 percent, 1 percent, etc. This means that the weight can vary one way or the other up to a certain percentage without weight claims. The franchise, if any, must be considered by the exporters in their price calculations.

The expression "franchise" is also used in connection with the additional weight which is added to the actual weight (before shipment) in order to create a loss in weight at destination, because some countries have difficulty in remitting to the United States for gains in weight because of a shortage of foreign exchange.

American cotton is traded on a "gross weight" basis (tare is included) in the United States, while abroad it is sold on a net weight basis. This makes it necessary to establish the actual tare (bagging and ties) and deduct it from the gross weight.

In cotton sale-price calculations the question of gains and losses in weight must be considered. Generally these considerations are based on climatic conditions existing in the country of destination at time of arrival and in the United States at time of shipment. Failure to include an allowance for probable losses in weight in the sale-price calculation can be costly to the exporter. On the other hand, gains in weight at destination are also considered.

## Arbitration

As a part of the terms, the arbitration to be used is also mentioned, i. e., Liverpool, Barcelona, Le Havre, Bremen, Gdynia, Ghent, Milan, Rotterdam, Bombay, Osaka, etc. Arbitrations involve mainly quality differences, but also misunderstandings of contract terms or noncompliance with them. The largest volume of arbitrations is done in Liverpool, Le Havre, Bremen, Bombay, and Osaka.

Even a country as far away from Liverpool as Indonesia or the Philippines uses Liverpool arbitration. The Osaka arbitration is used also by Korea, Taiwan, etc. Switzerland and Austria use Bremen, Liverpool, Le Havre, Ghent, or Milan arbitration. In many instances, an "amicable settlement" is used. This means that both parties, buyers and sellers, appoint arbitrators from expert cotton men in the foreign country. An amicable settlement is also made where buyer and seller agree to an allowance.

All arbitration boards, except Gdynia and Osaka, have appeal boards. For Gdynia arbitrations, appeals are held in Le Havre. If so requested at times of arbitration, in Osaka, the appeal can be held in Liverpool.

The arbitrations are held either by non-salaried arbitrators or full-time salaried arbitrators, depending on the system of the market. The same system applies to appeal members.

Arbitrations and appeals are "blind," which means that the arbitrators and appeal members know only the description of the quality, the growth, the last landing day of the steamer and the terms: c.i.f., c&f, f.a.s., etc. The price of the cotton is not divulged, and they do not know the names of the parties involved, except in Liverpool and Milan, where the arbitrators have been appointed by buyer and seller in these two markets. However, if so desired, the Liverpool Cotton Association will appoint the arbitrators, and thus the arbitrations can be "blind" in Liverpool, also.

The names of the arbitration boards abroad for American cotton are as follows:  
Liverpool Cotton Association, Ltd., Liverpool, England  
Association du Marche des Cotons au Havre, Le Havre, France  
Bremer Baumwollboerse, Bremen, West Germany  
Centro Algodonero Nacional, Barcelona, Spain  
Associazione Cotoniera Italiana, Milan, Italy  
De Vereeniging voor den Katoenhandel, Rotterdam, Netherlands  
Marche de Coton de Gand, Ghent, Belgium  
Gdynia Cotton Association, Gdynia, Poland

The East India Cotton Association, Ltd., Bombay, India  
Japan Cotton Arbitration Institute, Osaka, Japan

As an illustration of the above, the terms of a contract may read: c.i.f. Bombay, actual tare, mutual net landed weights, no franchise; Liverpool arbitration.

### Destination and Shipment or Delivery Period

The destination is usually a seaport in the foreign country. However, in the Netherlands, where Rotterdam is the usual port of destination, sales are also made c.i.f. Enschede, which is a mill center and a port in the interior of the country.

Sales are made for a specific shipment period from a port in the United States or for a specific delivery or arrival period in the country of destination.

The shipment period can be immediate (shipment within a week) or prompt (shipment within 14 days), or by a specified steamer, or during a certain month or months. In sales for a shipment period, the cotton must be delivered to a steamship company during the period stated, but the steamer need not necessarily sail during that period. If a specific sailing is required, it is so stated in the contract.

Exporters obtain either an on-board bill of lading or a port or custody bill of lading. Port or custody bills of lading may require an on-board endorsement.

In sales for a delivery period, the cotton must be delivered on a certain date or during a certain period in a foreign country. Delivery sales, which require correct calculation of the time that it takes a steamer to reach destination, are not as frequent as shipment sales. "Arrival" means the period during which the steamer must arrive at destination within a certain period of time.

### Freight

The exporter must keep well posted on the freight situation for shipments to the various countries he sells to. In all large cotton markets the various steamship companies have offices or there are freight brokers who supply the exporters up-to-date information on freight rates and on available steamers for the various destinations.

If an exporter anticipates making a sale for a certain shipping or delivery period, he obtains an option for ocean freight. When he makes the sale he books the freight firm. It is then necessary for him to deliver the cotton to the steamship company at the port of departure during the period for which the freight is booked. If he fails to ship, he could be penalized but steamship companies, for the sake of keeping good relations with the trade, usually do not penalize an exporter, except perhaps during a tight freight situation.

Most of the cotton exporters sign an agreement with the conference lines in the various areas of the United States, i. e., the Gulf, East Coast, and West Coast Conferences. The Gulf and East Conferences usually sign a joint agreement with the exporters. These agreements usually are good for the cotton season and guarantee a certain freight rate for the 12-month period. On the other hand, the exporters obligate themselves not to ship on nonconference steamers for the duration of the agreement unless conference steamers are not available at shipping time.

### Insurance

On c.i.f. or c.&i. sales, the seller covers the marine risk and war-risk while the cotton is in transit to destination. The seller issues an insurance certificate for this coverage, which is a part of the shipping documents of a c.i.f. or c.&i. sale. On c.&f. sales, the buyer covers both the marine risk and war-risk himself. On f.o.b. or f.a.s. steamer sales, the seller's risk ends when he delivers the cotton to a steamship company.

On c.i.f. or c.&i. sales, buyers usually request the exporters to insure the cotton for about 110 percent of its value so as to take care of price fluctuations in case the cotton has to be replaced by the buyer.

Cotton exporters usually make a contract with an insurance company to cover their stocks and shipments of cotton. Once a week they usually report to the insurance company the receipts of cotton at the various locations, and the shipments to the various destinations. On c.i.f. and c.&i. sales they issue insurance certificates themselves on forms furnished to them by the insurance company.

## Payment

The most common method of payment is a letter of credit, preferably a confirmed irrevocable one, opened by the buyers; against this the seller draws a sight draft with original documents attached. These documents usually include invoice, bill of lading, insurance certificate, weight sheets, original Form A Certificate for quality (if this is used), and Micronaire certificate. Public Law 480 regulations, if the cotton is financed under such programs, require some additional papers to be attached to the draft.

The buyer pays also for the cotton by cable transfer on receipt of a cable from the seller telling him the invoice amount. The documents are then sent by the seller to the buyer by registered airmail or through a bank.

Other forms of payment are cash upon arrival of steamer at port of destination; letter of credit with drafts to be drawn at 30 days, 60 days, etc., sight on a Prime United States bank; cash on delivery ex-warehouse (mostly from consignment stocks abroad); and cash upon presentation of documents at destination. "Cash" usually means cable transfer.

## Commission

The rate of commission paid by the seller to his agent averages approximately 1 percent for upland cotton, or can be expressed in cents per bale. This rate is not stated in the sale contract but is included in the agency agreement between shipper and agent. Extra long staple cotton bears a higher commission than 1 percent because the sales of such cotton are not as numerous as those of upland cotton.

Agents usually, though not always, have offices at a port, where mills are seldom located; therefore, they often employ subagents in the various interior mill districts. The agent pays a part of his commission to the subagent or the exporter figures it separately. Of course, if an agent can deal by telephone direct with a mill in the interior, he need not have a subagent to contact the mills.

## Claims

Claims generally involve weight losses or gains and quality allowances. These, unlike fire, theft, loss and certain damage to the bales while in transit, cannot be covered by insurance. Penalties for late shipments and other forms of noncompliance with contract terms can also be included in the category of claims. All claims are paid separately by exporters to the importers except that gains in weight naturally have to be paid by importers to exporters. Differences in weight are unavoidable because of the different climatic conditions in the various parts of the world. Quality claims arise mostly from differences in opinion, though at times they are attributable to the careless selection of the proper cotton for shipment against a specific quality.

The exporter specifies in the sales contract or the invoice the controller he wishes to represent him at port of destination. The controller's responsibility is to be present at weighing, taring, and sampling of the cotton upon arrival. The charges for these services are paid by the shipper, who includes these controlling fees in his sales price.



## Foreign Exchange

Most sales of U.S. cotton are made in U.S. cents per pound, but at times sales are made in a foreign currency, for example English pence, French francs, Swiss francs, etc. This involves a risk when the foreign exchange rates fluctuate. In order to insure himself against this risk, the shipper sells the foreign exchange for delivery during the period when the draft is negotiated. This is done at the time the sale is made and represents a hedge against fluctuations in the exchange rate.

Since World War II, sales of cotton in a foreign currency have been less frequent.

## Other Terms

Various clauses covering features of the sale are inserted in the sale contract. Following are some examples of these clauses:

"Lighterage if any, at port of discharge for account of buyer."

"Sellers are not responsible for delays or losses caused by Government regulations, strikes, lockouts, fires, riots, civil commotions, shortage of labor, or other causes beyond their control."

"In case of impossibility on account of any reason of force majeure, this contract shall be regulated by mutual settlement of the resulting difference."

"This contract is subject to the Special (i. e., Fair Practice) rules of the American Cotton Shippers Association."

A clause to cover carrying charges in case of delayed shipments is often included. All contract clauses vary among exporters and depend on the country of destination.

The specimen sale confirmation that follows is based on the terms discussed above. The form of these confirmations varies with the different shippers, but the specimen is representative of what a sale confirmation usually contains.

SPECIMEN  
SALES CONFIRMATION  
D. E. & CO.

Sale No. \_\_\_\_\_

Date \_\_\_\_\_

Messrs. A. B. & Co.  
Bremen, Germany

Dear Sirs:

We confirm having sold to you today the following raw cotton:

Through:	F. G. & Co. (Agents)
No. of Bales:	1,000 bales
Quality:	U. S. Middling one-inch staple, Orleans/Texas, Micronaire minimum 3.8
Price:	35.50¢ per lb.
Terms:	CIF Bremen, actual tare, mutual landed weights, no franchise, Bremen arbitration
Destination:	Bremen
Shipment:	250 b/c monthly April 1958 through July 1958
Insurance to be covered by:	Sellers
Reimbursement:	Sight draft against confirmed irrevocable letter of credit on Prime United States bank
Controllers:	X. Y. & Co., Bremen
Remarks:	This contract is subject to the rules of the Bremen Cotton Exchange

Sellers are not responsible for delays or losses caused by government regulations, strikes, lockouts, fires, riots, civil commotions, shortage of labor or other causes beyond their control.

Accepted: \_\_\_\_\_

D. E. & Co.

By \_\_\_\_\_

## COTTON BUYING PRACTICES IN FOREIGN COUNTRIES

The buying practices outlined below apply in most cases to both United States and foreign cottons.

### North America

Mills in Canada buy United States cotton through agents of exporters. Some large Canadian mill groups have their own buying offices in the United States.

### Western Europe

The cotton business in Austria is split up between Vienna and Dornbirn (Vorarlberg), both in the heart of mill centers. Cotton is sold through agents of cotton exporters or of Bremen, Rotterdam, Le Havre, Hamburg, and Milan merchants in Vienna and Dornbirn (Vorarlberg). Some business is also handled by agents in Switzerland, particularly with Vorarlberg mills.

Practically all the sales of cotton to mills in Belgium are made by agents in Ghent, Antwerp, and Brussels, representing cotton exporters. A few agents deal as merchants who also sell beyond the borders of Belgium.

In Denmark cotton exporters have agents in Copenhagen who sell to mills; there are no cotton merchants.

In Finland cotton is sold to mills through agents of cotton exporters in Helsinki; there are no cotton merchants.

In France cotton is sold partly through agents and partly through merchants to mills. Exporters have either agents or direct connections with Le Havre or Paris merchants. These Le Havre and Paris agents in turn have subagents in mill centers like Lille, Roubaix, Rouen, Lyons, and Mulhouse. There are also some exporters' agents in Lille. Since World War II merchants and agent firms in Le Havre have opened offices in Paris. The port of Le Havre remains the most important port in France where cotton is stored and the spot market is still active. Dunkirk and Marseilles are the other cotton ports. The move of some of the French cotton trade to Paris was caused by the fact that the

French Government's buying offices during and after World War II were located there. Now, the trend is for the cotton trade to return to Le Havre.

The U. S. cotton business in West Germany is concentrated in Bremen; Hamburg merchants and agents in Hamburg concentrate on growths other than United States cotton, although some Hamburg firms which are less numerous than in Bremen, are quite active in U.S. cotton. United States cotton exporters have most of their agents in Bremen, but a small number of exporters have direct agents in mill districts. Before World War II, the large Bremen cotton merchants sent their own men to buy cotton in the United States. Agents and merchants both sell to mills. Some mills have direct buying connections in the United States with cotton merchants or brokers.

The Bremen and Hamburg merchants and agents have subagents in the mill districts such as Nordhorn, Rheine, Rheydt, Stuttgart, Augsburg, and München-Gladbach. In the Bremen market there are also brokers who supply offers of the agents to the merchants.

In Greece United States cotton is sold through agents of exporters to mills or Greek cotton merchants.

In Ireland most of the cotton is bought by mills from or through Liverpool firms.

In Italy exporters are represented by agents in Milan, the main cotton center of Italy. There are no cotton merchants in Italy.

The agents in turn have subagents in the Milan, Turin, Venice, Naples, and other mill districts.

For the Netherlands most of the cotton is sold by agents of cotton exporters in Enschede or Rotterdam, principally in Enschede, which is located in the heart of the Dutch mill center. In Rotterdam there are some cotton merchants who may also do business outside the Netherlands.

Norway has no cotton merchants, and all the cotton is sold direct to mills by exporters or through agents of cotton exporters in Oslo or Bergen.

In Portugal a few of the agents of cotton exporters are located in Lisbon; most, in Oporto. These agents sell to mills. Some also merchandise cotton. Oporto is the principal mill district in Portugal.

In Spain the cotton is bought through the agents of cotton exporters by mills and/or merchants.

In Sweden the cotton is sold to mills through agents of the exporters. Most agents are located in Gothenburg; a few, in Stockholm.

In Switzerland the cotton is sold to mills through agents of cotton exporters, and the cotton business is concentrated in Zurich. A few exporters' agents are also located in Lausanne and Geneva.

In the United Kingdom some exporters have agents. Others have direct connections with Liverpool and Manchester merchants and some with mills. Agents and merchants both sell to mills. A few United States exporters, on the other hand, have an interest in British firms. For several years during and after World War II, cottons were purchased through the Raw Cotton Commission, a government organization, but this practice has now been discontinued.

### Communist Countries

United States cotton can be sold to Communist countries provided an export license is obtained.

Bulgaria, East Germany, Hungary and Rumania used to have agents of cotton exporters and subagents of merchant firms in Bremen, Hamburg, Rotterdam, Le Havre, Liverpool, Milan, and other places. Now the cotton is bought through government organizations.



In Czechoslovakia cotton exporters sell direct to a central government buying office, "Centrotex," in Prague.

In prewar days there were agents of cotton exporters and of Bremen, Hamburg, Rotterdam, Le Havre, and Liverpool merchants in the mill centers of Czechoslovakia: Reichenberg, Prague, Nachod, and others.

Like Czechoslovakia, Poland has no cotton agents or merchants. Exporters offer direct to a central government buying organization, "Textilimport," in Lodz. The buying of Public Law 480 cotton has been done by representatives of "Textilimport" who come to the United States when they have cotton to purchase. Prior to World War II, there were agents of cotton exporters and European merchants in Lodz, the center of the mill district.

For the Soviet Union a Trading Organization buys all the cotton imported.

There are at present no cotton agents or merchants in Yugoslavia. The cotton exporters make offers direct to the government central buying organizations, "Centro Textil" in Belgrade, "Jugo-Tekstil Impex" in Ljubljana, "Makotex," Skoplje, or "Textil" in Zagreb. These government organizations usually send some representatives to the United States when they have larger quantities of cotton to purchase.

Prior to the Communist regime, China was a large cotton-importing market. The activities were concentrated in Shanghai, where the agents of exporters were located. Some of the mills have moved now to Formosa or Hong Kong.

## Asia and Oceania

In Australia cotton is bought by mills from agents of cotton exporters. Some exporters may have direct contact with mills.

In Burma, the only United States cotton bought today is that programmed in small quantities under Public Law 480, Title I. These purchases are handled through the Burmese Government for the government-owned mill. The construction of additional cotton mills by the Burmese Government has begun.

Ceylon's limited cotton industry bought its cotton in the past through cotton agents of United States exporters in Bombay. An expansion of the cotton textile industry could change this situation. Direct contact is also made between exporters and the two mills now existing.

Hong Kong has liberalized cotton imports. The cotton is sold through agents of the exporters to the mills. Some cotton is sold direct to mills by exporters.

India has in Bombay an old and well-established cotton trade which includes agents, brokers, and merchants. The Indian mills buy foreign cotton through agents of cotton exporters or through Indian merchants. Bombay agents and merchants have subagents in the principal mill centers of Madras, Cawnpore (Kampur), Ahmedabad, Coimbatore, and Calcutta. Some large mill groups have buying offices in Bombay.

In Indonesia, in the past when most of the mills were connected with foreign mills (Dutch and British), or had foreign capital, the buying of cotton was in fact done by the foreign interests abroad. Now the cotton is purchased through the Indonesian Supply Mission in New York for the Indonesian Government.

In the past Iraq has occasionally bought foreign cotton direct from cotton exporters. This country is not a regular user of foreign cotton.

In Israel cotton is bought by Israeli mills through agents of exporters.

In Japan cotton exporters sell cotton to Japanese merchants through their agents in Osaka. These merchants in turn alone sell to mills. No agents deal direct with mills. These merchants may also buy cotton direct from exporters.

Several of the large Japanese merchant firms have branches or affiliates in the United States that buy cotton direct from the farmers, gins, United States merchants, and CCC (under the export sales program), like any United States cotton exporter.

Korea buys today practically all his imported cotton from the United States. There are agents but no merchants in Korea.

Lebanon irregularly buys small quantities of United States cotton from American exporters direct. There are few cotton agents in Lebanon.

In the Federation of Malaya cotton spinning mills have just begun to be constructed. So far, the cotton is bought direct from exporters or agents in Hong Kong. The Singapore mill was liquidated in 1962.

Pakistan, like India, also has an old and well-established cotton trade, in Karachi, which includes agents, brokers, and merchants. Pakistani mills buy foreign cotton through agents of cotton exporters or through Pakistani merchants.

In the Philippine Republic, there are agents of cotton exporters in Manila who sell to the mills. A few mills buy direct from exporters. Some mills or their affiliate companies have offices in the United States that buy direct from United States cotton shippers.

South Vietnam's cotton textile industry buys cotton direct from exporters or through agents of exporters in Saigon.

In Taiwan, the buying of United States cotton under aid programs is done by the Taiwan Cotton Purchasing Association, Taipei, for some 16 mills. Other mills buy individually. The Central Trust of China buys cotton for the account of the Government. Free dollar purchases are made individually by mills. There are agents in Taipei representing cotton exporters.

In Thailand, United States cotton is bought direct from exporter or through agents of United States exporters in Bangkok or Hong Kong.

## South America and the Caribbean

Mills in Argentina buy foreign cotton through exporters' agents or direct from exporters.

In Bolivia, foreign cotton is bought through government offices.

Chile, Cuba, Colombia, Ecuador, Urguay, and Venezuela buy cotton through agents of cotton exporters in their countries. Some mills in Chile and Colombia have samples of their purchases in the United States approved by cotton firms before shipment.

In the Dominican Republic and Jamaica, cotton is bought direct from exporters by the mills.

## Africa

In Ethiopia cotton is bought direct from cotton exporters and through agents of cotton exporters.

In Morocco, cotton is bought partly through firms in France, which have connections with the mills in Morocco. Some mills also buy direct from exporters or through agents of exporters.

Southern Rhodesia bought United States cotton for the first time in 1956. These purchases were then handled direct between the only mill there and United States cotton exporters, or through agents of cotton exporters in the Union of South Africa. Today some U. S. cotton exporters have agents in Salisbury.

In the Republic of South Africa, United States cotton is mainly sold through exporters' agents there. Some mills with ties in Europe still buy cotton there, but this system will disappear sooner or later.

Before World War II, markets like China, India, Indonesia, Japan, the Philippines, Australia, South America, South Africa, and the Balkan States were only worked by a few United States exporters. Today a great many more cotton exporters sell in these countries and areas. Hong Kong increased its industry only after the Communists took over China and some Chinese mills moved to Hong Kong. Korea and Taiwan (Formosa) imported cotton through Japan in pre-war days while under Japanese control.

Since the end of World War II, new or bigger markets have opened up, or will open up for United States cotton in countries like Indonesia, Hong Kong, the Philippines, Thailand, Vietnam, Malaya, Ethiopia and the Republic of South Africa. On the other hand, a large market has been lost for United States cotton in China since the Communists took over.

## HANDLING OF COTTON ABROAD

Cotton imported on a c.i.f. or c.&f. basis by an agent of an exporter is delivered to the buyer at the port. The buyer is either an importer (cotton merchant) or a mill. If the buyer is a mill the cotton is most likely shipped immediately to the mill warehouse. If the buyer is a merchant the cotton is either delivered to a mill at the port or shipped to a warehouse at the port for storage. If shipments against a c.i.f. sale are made "guaranteed through," i.e., with weights, tare, and quality guaranteed, the weight and tare are established on arrival at the port and the quality is checked by the buyer from the samples taken at the port. When buyers, principally mills, buy f.o.w. at the port, the agent of the exporter arranges for loading the cotton in care of trucks. Consignments are sold ex-warehouse or f.o.b. warehouse.

Cotton merchants or importers abroad have almost the same problems or activities as United States cotton exporters. They have to take care of hedging, insuring, financing, storing, and shipping.

## PUBLIC LAW 480 AND THE COTTON EXPORT TRADE

"The Agricultural Trade Development and Assistance Act of 1954, as amended, commonly known as Public Law 480, has as its main objective the constructive use of the agricultural abundance of the United States. Under two titles of this Act, Title I, 'Sales for Foreign Currency,' and Title IV, 'Long-Term Supply Contracts,' cotton may be sold on a trade-to-trade basis although the over-all agreements are made between the U. S. Government and the foreign governments. Cotton may also be exported under the barter program provided for by Title III, 'General Provisions,' but in this instance the cotton must be obtained only from CCC. Government-to-government agreements are not ordinarily involved in the barter program. The cotton trade does not participate in the Title II activities, which are donations for famine relief and other assistance."

### Title I, Sales for Foreign Currency

To explain the purpose, the development, and the workings of Title I, Public-Law 480, part of a pamphlet written on this subject by FAS is herewith given:

Title I of the Act authorizes the President to carry out a program for the sale of U. S. surplus agricultural commodities for foreign currencies under agreements with friendly nations or organizations of friendly nations.

In negotiating Title I agreements, the President is required to (1) take reasonable precautions to safeguard U.S. usual marketings and assure that such sales will not unduly disrupt world prices of agricultural commodities or normal patterns of commercial trade with friendly countries; (2) assure the use of private trade channels to the maximum extent practicable; (3) use the program to develop and expand continuous market demand abroad for agricultural commodities with appropriate emphasis on underdeveloped and new market areas; (4) secure commitments that the commodities sold for foreign currencies will not be resold or re-exported except with specific approval; (5) afford any friendly nation maximum opportunity to purchase U.S. surplus agricultural commodities taking into consideration the objectives of the law and to make effective use of the foreign currencies received; and (6) obtain rates of



exchange which are not less favorable than the rates at which U.S. Government agencies can buy currencies from U.S. Disbursing Officers in the respective countries.

The Act provides that Commodity Credit Corporation funds shall be used to finance the sales and authorizes appropriations to reimburse CCC for its costs, including the acquisition cost of price support commodities from CCC stocks which may be shipped under the program. Beginning in the fiscal year 1962, the Department of Agriculture requests appropriations for estimated program costs for the year. The Department reimburses CCC on a monthly basis as costs are incurred.

#### Program development:

The safeguards and standards contained in the law necessitate careful planning of country programs. Title I agreements usually stem from requests submitted by foreign governments, sometimes following discussion with U.S. Embassy officials. The requests generally consist of a list showing specific quantities of commodities wanted, an explanation of the supply and economic factors underlying the request, and, in some cases, the foreign government's preferences regarding the uses to be made of the currencies accruing from the sale.

These requests are carefully analyzed, taking into account legislative requirements, funds limitations, foreign exchange position of the country, impact on dollar sales and other export programs, effect on the export markets of other supplying countries, and numerous other factors which may vary from commodity to commodity and country to country.

Public Law 480 affects many activities and responsibilities of the U.S. Government. An interagency committee with representatives from interested agencies is responsible for consideration of specific proposals for foreign currency sales and for working out the provisions of agreements. The Department of Agriculture heads this working group.

Each proposed country program is submitted to the interagency committee for consideration. When approved, instructions are dispatched to the U.S. Embassy in the country for negotiation by a team acting under the direction of the Ambassador, and consisting of representatives of interested U.S. agencies, including the Agricultural Attache. The negotiators for both sides review the commodities, the quantities, the period in which purchases and deliveries might be expected to be made, and the safeguarding of commercial marketings. Appropriate assurances are obtained from the participating governments that reasonable safeguards will be taken that Title I sales will not displace U.S. usual marketings or be unduly disruptive of world market prices or normal patterns of commercial trade with friendly countries. In some cases, Title I agreements include global marketing provisions which specify quantities of certain commodities to be purchased commercially within a given period from free world sources (including the United States) in addition to the quantities to be purchased from the U.S. for foreign currency. In some cases, specific quantities to be purchased from the United States for dollars are indicated.

The use of funds accruing from the sale is also reviewed and clarified. It is agreed as to how much will be reserved for United States uses including the payment of U.S. Government expenses abroad, agricultural market development and educational exchange; how much for loans to private business firms; and how much will be loaned or granted to the foreign government for economic development purposes.

An important responsibility of the negotiating team is to make certain that the foreign government fully understands the various requirements and conditions of the Title I agreement. In connection with these agreements it is essential that there be a clear understanding as to the rate of exchange and the applicable fiscal procedures. Also, there may be special conditions such as the maintenance of a minimum level of stocks or restrictions on exports of certain commodities from the participating country.

In the course of a negotiation, the foreign government may request changes in the proposed agreement or make counter proposals.

After the government-to-government agreements are signed, a definite financing procedure is followed resulting in final payment being made in the currency of the foreign country to the account of the U.S. Government in a depository of the foreign country designated by the United States. The importing country applies to the Foreign Agricultural Service for purchase authorizations which provide for the dollar financing of the commodity sales and specify the conditions under which such financing will be made available. Since U.S. Government funds are used to finance Title I sales, certain controls are maintained.

The government of the importing country designates certain banks in the importing country and in the United States to participate in the program. The CCC issues letters of commitment to the designated U.S. bank in the amounts requested by the government of the importing country. Each letter of commitment names the designated foreign bank as well as the U.S. bank and constitutes a commitment by the CCC to reimburse the U.S. bank for payments made under letters of credit for the account of the foreign bank in connection with export sales under the purchase authorization.

The foreign importer, who may be a private importer or in some cases an agency of the foreign government, enters into contracts with U.S. exporters and applies to their own designated local bank for letters of credit in favor of the U.S. exporter. These letters of credit are paid through designated banks in the United States holding a CCC letter of commitment which names the designated foreign bank.

The U.S. bank pays dollars to the U.S. exporter against a draft and shipping documents in the usual manner. However, instead of calling on the designated foreign bank for payment of such dollar amounts, the U.S. bank obtains reimbursement from CCC.

The foreign bank then pays the value of the sale, after receiving shipping documents, by depositing local currency to the account of the U.S. Government rather than crediting dollars to the account of the designated U.S. bank. The size of payment is determined by the amount of dollar disbursement for commodities and for transportation costs made by the designated U.S. bank as specified in the country-to-country agreement. In general, the United States is paid in foreign currency at the same rate at which the importer would purchase dollar exchange from his bank in his own currency. Payments are made at the exchange rate in effect on the day when the dollars are disbursed by the U.S. bank.

Deposits of foreign currency are required promptly upon receipt of notice of each dollar disbursement. Deposits are made to the account of the U.S. Disbursing Officer in the Embassy who reports monthly on these accounts to the Treasury Department. Dollar disbursements are also summarized monthly by CCC and compared with deposits reported to the Treasury. The Department of Agriculture takes action through the Embassy to correct any discrepancies noted or to ascertain reasons that deposits are not being made promptly.

Public announcements made by the Department of Agriculture when each Title I agreement is signed provide the U.S. trade with notice of the amounts of the agricultural commodities to be financed by the U.S. through issuance of purchase authorizations.

After the agreement is signed, the foreign country applies to the Department of Agriculture for purchase authorizations which provide for the dollar financing of the commodity sales and specify the terms and conditions under which such financing will be available. The purchase authorization specifies, among other things, the commodity, country, amount in U.S. dollars, the period during which sales can be made, the delivery period, and any grade, quality, or other special provisions to apply to commodities furnished under the authorization. Public announcements are made when purchase authorizations are issued and include the names of importers or buying missions if they have been designated by the foreign country at the time of issuance.

Sales under Title I purchase authorizations are made by private U.S. exporters. Such sales must conform to provisions of the purchase authorizations and Title I regulations issued by the Department of Agriculture. The regulations set forth the responsibilities of exporters, importers, banking institutions, and foreign governments participating in the program as well as documentation requirements and general price provisions.

As of April 30, 1963, the United States had signed agreements under Public Law 480, Title I, for over \$1.2 billion worth of U. S. upland and extra long staple cotton, representing nearly 8 million bales. As of the same date, under Public Law 480, Title IV, agreements were signed for \$33,750,000, representing about 237,500 bales of upland

## Title I Regulations<sup>1</sup>

It is strongly recommended that the cotton shippers be thoroughly acquainted with the P.L. 480, Title I, regulations, which can be obtained from the Director of the Program Operations Division, Foreign Agricultural Service, U.S. Department of Agriculture, Washington 25, D.C. However, as a guideline, the principal regulations applicable to sales of cotton for export under P.L. 480, Title I, are condensed below:

1. Each Purchase Authorization (hereafter called PA) specifies the commodity, the maximum dollar amount to be financed, the contracting and delivery (shipment) periods, and the sales terms. The quantity in bales stated in the PA is only approximate because the quality, price, and terms of the sales contract cannot be determined beforehand. The guiding figure is the dollar amount in the PA, not the number of bales.

FAS will make public, with respect to each purchase authorization, information necessary to enable suppliers to initiate negotiations for sales under the program. USDA press releases are issued daily, and other information will also be issued daily or as often as necessary.

2. Contracts between importers and suppliers (exporters or shippers) can be entered into only within the specified contracting period stated in the PA. The delivery or shipment must fall within the delivery period specified in the PA. Contracting and delivery periods are at times extended if the government of the recipient country requests an extension and gives valid justification. This is not, however, a general rule.

Contracts and deliveries begin 7 days after the PA has been signed, so as to give all parties interested in selling cotton against the PA a chance to learn of its issuance.

3. To participate in a P.L. 480, Title I, program, a supplier must be engaged in the business of selling cotton for export from the United States and must maintain a bona fide business office in the United States.

4. The contracted price must not be on the basis of cost plus percentage of cost.

5. An importer's request for offers pursuant to which an export sales contract is entered into must not preclude such offers from being made from any United States port(s).

6. A commission to a bona fide commercial or selling agent employed or engaged by the supplier to a contract will be financed under P. L. 480, Title I, to the extent that is not in excess of the rate or percentage customarily and usually charged for the services performed and the commodity involved.

No commission paid or to be paid to any agent, broker, or other representative of the importer to obtain a contract will be eligible for financing, under Public Law 480, Title I, whether included in the price of the commodity or separately stated. This is not applicable to ocean transportation brokerage commissions.

If the supplier has employed any person or firm, other than a bona fide established commercial or selling agent, to obtain a contract under any agreement for a commission,

<sup>1</sup>Regulations change from time to time; therefore, for current information it is advisable to check with the proper divisions in FAS.



percentage, or contingent fee, the contract is eligible only for the amount of the contract less the amount of any such commission, percentage, or contingent fee.

7. Regarding adjustment refunds (settlement of claims), all claims by importers for weight and excess tare claims, quality and other arbitration and appeal awards and available allowance, claims for overpayment of ocean transportation shall be settled by payment in United States dollars and this payment shall be remitted by the supplier (exporter) to the banking institution to which the supplier presented the documents covering the original transaction (i.e., the U. S. bank that issued the letter of credit). The remittance to the banking institution shall be identified with the date and amount of the original payment, the commercial letter of credit number, and the applicable purchase authorization number.

8. Insurance for the account of the importer shall provide in the policy or certificate of insurance that all claims shall be paid in U. S. dollars and that the underwriter shall notify the controller, CCC, at the time a claim thereunder is paid, indicating the PA number, the name and address of the supplier, importer, and payee of the claim, the amount paid, the nature of the claim, the quantity of cotton involved in the claim, the date of shipment, the bill of lading number, and the name of the vessel. This provision applies only where the cost of insurance is in the net c.i.f. invoice price and financed by CCC.

9. The cost of ocean transportation will be financed as part of the contracted price only to the extent specifically provided in the applicable PA. This is usually the freight cost on 50 percent of the total bales being shipped (under U.S. flag). Public Law 664 (the Cargo Preference Act) requires that 50 percent of the tonnage be moved on U.S. flag vessels. In the absence of a specific provision in the applicable PA, the cost of ocean freight will not be financed by CCC as part of the contracted price and must not be covered by the net invoice price.

If ocean transportation is financed separately from the commodity price, a separate purchase authorization (PA-OT) for ocean transportation is issued.

10. Where prices have not been fixed prior to shipment, or prior to delivery ex warehouse or ex dock (consignment), a provisional invoice may be presented under the letter of credit in an amount at or below the value of the cotton based on the close of the futures month in the futures market on which the contract is based, on the date of (i) the ocean bill of lading or (ii) the actual date of delivery ex warehouse or ex dock consignments, whichever is applicable. If the market is not open on that date, the close of the next day on which the market is open shall be used to determine such value. When the actual price fixation is made, the supplier, if an additional amount is due him, shall present a final invoice under the letter of credit in accordance with subsection 11.9(a)(7) of the Regulations.

If the actual price fixation results in a refund owing to the importer, the supplier shall remit this amount together with the final invoice to the banking institution which paid the provisional invoice for the shipment involved, and the transaction shall be handled in the same manner as adjustment refunds under subparagraph (5) of this paragraph.

11. Only cotton grown in--or both grown and processed in--the United States is eligible for financing.

Only the commodity described and specified in the applicable purchased authorization shall be eligible for financing.

Cotton, in order to be eligible, must conform to whichever of the following requirements is applicable unless the purchase authorization specifies otherwise:

(a) Meet the Universal Standards for American Upland Cotton and have a staple length of 13/16" or longer.

(b) Meet the Official Cotton Standards of the United States for American-Egyptian Cotton and have a staple length of 1-3/8" or longer.



(c) Meet the Official Standards of the United States for Sea Island Cotton and have a staple length of 1-3/8" or longer.

A consignment of cotton grown in the continental United States but located outside the United States will be eligible for financing, provided it is sold to the importer "ex warehouse or ex dock country of original destination from the United States." If the stocks are located in a country other than the importer country shown in the PA, the documentation evidencing shipment from the United States must be consistent, under good commercial practice, with transshipment to the importing country. This means that the cotton must be stored in a country located on the normal route of shipment to final destination. The freight from storage point of consignment to final destination is not financed under P.L. 480.

A port of custody bill of lading dated within the delivery period specified in the PA, with on-board endorsement dated not later than 20 days after the final specified delivery date, is permissible.

13. When the cotton is sold on certified U. S. warehouse shipping weights, the certification of the U. S. warehouseman must show month, supplier's name, CCC Registration Number, Purchase Authorization Number, gross weight, type of bagging, number of ties, and weight of patches, if any, for each bale and the tare. The gross weight minus tare shall constitute net weight. The certification must also state that cotton in the shipment was weighed after the last sampling and not more than 30 days prior to the date of certification.

14. The supplier's invoice shall show the contract terms of weight settlement, and unless the sale is made against private types, the quality described in terms of the Universal Standards for grade and the Official Cotton Standards of the United States for staples.

15. For consignments, a letter from a United States bank is needed, addressed to the banking institution to which documents will be presented under the letter of credit issued to the supplier. In this letter, the United States bank shall state that it has authorized or will authorize its foreign correspondent holding the documents of title (to the cotton described in the accompanying invoice and certification of independent controller) to release these documents of title to or for the account of the importer. The letter must be dated within the delivery period specified in the applicable purchase authorization.

In lieu of an ocean bill of lading, a nonnegotiable copy (or photostat) of the ocean bill of lading may be submitted, evidencing shipment of the cotton from the United States not later than the final delivery date specified in the applicable authorization and showing identification marks of the bales shipped.

If the cotton has been released by the carrier prior to delivery to importer, ex warehouse or ex dock, an identification certificate should be presented, executed by an independent controller at the port of entry and certifying to the unloading of the cotton and the issuance of the specific warehouse receipts or other applicable title documents. The Independent Controller's identification Certificate shall be in the following form:

	_____
	(Landing port)
	_____
(Date)	19 _____

The undersigned certifies:

That \_\_\_\_\_ bales of cotton marked \_\_\_\_\_ shipped from \_\_\_\_\_  
(Quantity) (U. S. port of exit)  
by \_\_\_\_\_ under bill of lading No. \_\_\_\_\_ issued \_\_\_\_\_ 19\_\_\_\_ by \_\_\_\_\_  
(Name of shipper) (Date of B/L) (Name of)  
\_\_\_\_\_ were transferred under our supervision from SS: \_\_\_\_\_  
steamship company) (Name of vessel)  
flag \_\_\_\_\_ on \_\_\_\_\_ 19\_\_\_\_ to the \_\_\_\_\_ at \_\_\_\_\_ and warehouse  
(City and country)  
receipt No. \_\_\_\_\_ was issued therefor in the name of \_\_\_\_\_  
(Name of shipper and/or his agent or bank)

\_\_\_\_\_  
(Name of independent controller)

By (Authorized signature)

A separate warehouse receipt shall be issued for each lot of cotton shipped under one mark and a separate independent controller's identification certificate shall be made for each such lot warehoused. For ex-dock delivery, the applicable title document and number should be inserted in place of warehouse receipt and number.

The supplier's invoice shall show the contract terms of weight settlement, and unless the sale is made against private types, the quality described in terms of the Official Cotton Standards of the United States.

16. On P.L. 480, Title I, shipments, a supplier's certificate is required (Commodity Credit Corporation Form 329, May 19, 1959). This form can be obtained from the ASCS Commodity Office, Wirth Building, 120 Marais Street, New Orleans, La.

The supplier's certificate acknowledges notice that--

(a) The invoice amount claimed as due and owing under the terms of the contract is to be paid out of funds made available by the Commodity Credit Corporation under the Agricultural Trade Development and Assistance Act of 1954, as amended; (b) the supplier agrees with CCC that he will promptly make appropriate refund to the ASCS Commodity Office named in the purchase authorization for breach by him of any of the terms of the certificate and that he will furnish promptly to ASCS, USDA, upon request, such additional information in such form as may be required; (c) The claimed sum is due and owing to the supplier under the terms of the contract; (d) He has complied with all applicable terms and provisions of the purchase authorization and of the regulations pertaining to Title I of Public Law 480, as amended; (e) All applicable portions of the Invoice-and-Contract Abstract (which appears on the reverse side of the certificate) have been filled in and the information shown thereon is complete and correct; (f) He has not employed any person to obtain the contract under any agreement for a commission, percentage, or contingent fee, except to the extent, if any, of the payment of a commission to a bona fide established commercial or selling agent employed or engaged by him (to be disclosed on the reverse of the form). (g) He has not given or received and has not arranged to give or receive by way of side payment, "kickback," or otherwise, any benefit in connection with the contract except as he shall disclose on the reverse of the form, or as the result of adjustment as provided in subparagraphs 11.4(d) (5) and (6) of the regulations pertaining to Title I of Public Law 480.

Any amendments, deletions or substitutions will invalidate this certificate.

Before executing the supplier's certificate the supplier shall fill in the invoice-and-contract abstract on the reverse side in accordance with the instructions printed on the Form. The information required by the abstract is generally as follows:

(a) Invoice information, including the supplier's name and address, the importer's name and address, and detailed billing and shipping data.

(b) Information relating to agents' commissions paid or to be paid. This information with respect to agents' commissions need not be filled in on any copies of CCC Form 329 to be furnished by the supplier to the importer.

(c) Contract and price information expressed in dollars including a reconciliation of the contract and invoice prices applicable.

17. Careful attention is to be given to the following price provisions before considering making a sale:

The supplier's sales price must not exceed the prevailing range of export market prices (or such other maximum price level as may be specified in the purchase authorization) as applied to the terms of sale at the time of sale. "Time of Sale" shall mean the day as of which the sales price, or the method for determining the price, is established between the importer and the supplier.

The supplier shall, within 5 days from the date of export sale, furnish the Director, ASCS Commodity Office, Wirth Building, 120 Marais Street, New Orleans 16, La., with a copy of his sales confirmation, and if he fails to do so, CCC shall have the right to refuse to finance the sale under the program.

The ASCS Commodity Office will undertake, on behalf of CCC, to check the sales confirmation as to price and to inform the supplier, within 3 business days from receipt of the sales confirmation, whether the price is in conformance with the first paragraph of this section.

If the ASCS Commodity Office determines that the sales price does conform, the supplier will immediately be informed by telegram of the registration number assigned to the sale by CCC.

Failure by the ASCS Commodity Office to so notify the supplier by telegram within 5 business days after receipt of the copy of the sales confirmation will indicate that the sale price is not acceptable, and the sale will not be financed under the program unless the supplier satisfies CCC that the sales price has been changed to conform with the first paragraph of this section.

The contracted price for commodities procured through an affiliate of the importer shall not be more than the total of the following:

(a) The initial cost to the affiliate for acquisition from U. S. sources; (b) The actual or average cost of any handling, processing, and transportation to point of delivery incurred by the affiliate; and (c) Any mark-up regularly and customarily charged.

When the purchase authorization limits contracting to f.o.b. or f.a.s. terms, the contracted price stated in the export sales contract as originally executed is the maximum price eligible for financing by CCC.

18. Cotton shall be subject to arbitration for quality unless the contract provides for USDA Form A Certificates and for other terms under rules of an established cotton exchange or association agreed upon by the importer and supplier, such association or established cotton exchange to be identified in the contract. Contracts between suppliers and importers shall provide that if the allowances awarded for quality differences average 150 points or more per pound on a shipment covered by one lot mark, such award shall be increased by the larger of (1) the amount of such allowances awarded, or (2) the sum of any additional penalties for abnormal quality differences imposed under the contract or applicable association rules for such difference.

Sampling, classification, and adjustment of contract price are regulated by the following provision, applicable to all sales unless the contract provides for Form A Certificates:

(a) Tag lists and sampling: The supplier shall furnish to any permanent Agricultural Marketing Service classing officer of the supplier's choice a tag list of the cotton included in a single export shipment showing the supplier's name and address, the CCC registration number, the purchase authorization number, the supplier's



sale number, if any; the name, address, and CCC code number of the warehouse in which the cotton is stored and the warehouse bale numbers of the cotton to be exported listed in numerical sequence. A separate tag list must be submitted for the cotton to be shipped from each warehouse.

Samples will be required from a minimum of 10 percent of the bales of cotton (larger percentages will be used on small lots). The bales to be sampled will be selected by the chosen AMS classing office and entered on a Record Sheet. If the supplier desires a larger percentage of samples to be drawn than the minimum required, he should indicate such percentage on the tag list. At the time the copy of the tag list is furnished the warehouseman by the supplier, he shall instruct him to sample the bales of cotton listed on the Record Sheet and to handle such samples in accordance with instructions issued by the New Orleans ASCS Commodity Office. The supplier shall also instruct the warehousemen that the cotton must not be shipped until after it has been sampled in accordance with instructions issued by the New Orleans ASCS Commodity Office. All costs relating to the samples and sampling will be for the account of the supplier.

- (b) Submitting private-type for classification: If the sale is made on the basis of private-type, and if the particular type has not been submitted on or after August 1, 1962, for classification, the supplier shall submit the private type for classing directly to the Appeal Board of Review Examiners, Cotton Division, AMS, U.S. Department of Agriculture, 4841 Summer Avenue, Memphis 17, Tennessee. The type shall be identified by supplier's name and address and private-type name or designation. The classification of any type submitted prior to August 1, 1962, will not be acceptable.

If the sale is made on the basis of a private-type previously submitted on or after August 1, 1962, for classification, the supplier shall so advise the New Orleans ASCS Commodity Office and identify such private-type by furnishing the supplier's name and address, the number of the AMS classification memorandum, the date of such classification memorandum, and the supplier's private-type name or designation.

The private-type submitted for classification hereunder shall be identical in quality with the private-type on which the sale is based and the private-type supplied by arbitration boards in connection with the contract covering the sale.

Adjustment of contract price: In addition to the other requirements for quality arbitration, the following will also apply:

- (i) If the classification of the cotton is determined in connection with an appeal from an arbitration award, the contract price shall be reduced by the larger of (1) the award, or (2) the amount by which the contract price exceeds the prevailing range of export prices at the time of sale as determined by CCC on the basis of the classification determined in connection with such appeal.
- (ii) In any case where the classification of the cotton is not determined as provided in (i) above, the contract price shall be reduced by the award.

Whenever a copy of a weight certificate is required by the purchase authorization or these regulations, the supplier is responsible for submitting a weight certificate issued by an employee of, or person licensed by, a Federal or State agency or local public authority, or issued by or on the authority of a trade association or organization or private independent firm. Where a weight certificate cannot be obtained from any of these sources, a weight certificate issued by an individual who is bonded for the faithful performance of weighing duties is acceptable.

Whenever a copy of a certificate relating to the drawing of samples is required by the purchase authorization or these regulations, the supplier is responsible for

submitting a certificate issued by an employee of, or a person licensed by, a Federal or State agency or local public authority, if issued by or on the authority of a trade association or organization or private independent firm.

(i) In the case of procurement by an importer through an affiliate, the copy of the invoice to be submitted to CCC must also have the amounts itemized which are specified in the Regulations, or else the supplier must furnish this information to CCC in a separate signed statement.

### Title III, Barter

#### Authority

The Agricultural Trade Development and Assistance Act of 1954 (P. L. 480), as amended, provides that the Secretary of Agriculture shall, whenever such action is in the best interest of the United States, barter or exchange agricultural commodities owned by the Commodity Credit Corporation for (a) strategic or other materials of which the United States does not domestically produce its requirements and which entail less risk of loss through deterioration or substantially less storage charges as the President may designate (if not needed for other purposes, these materials are placed in the supplemental stockpile provided for by this same Act), or (b) materials, goods, or equipment required in connection with foreign economic and military aid and assistance programs, or (c) materials or equipment required in substantial quantities for offshore construction programs. In addition, there are several other statutes, such as the CCC Charter Act, which authorize the barter of CCC-owned commodities for strategic or other materials, goods or equipment.

#### Barter Policies

New barter policies were approved by the President, September 20, 1962. Although strategic materials may still be acquired by barter, within certain limitations, greater emphasis is being given acquisition of non-strategic-materials items and particularly procurement of foreign-produced items for use of the Department of Defense in its overseas installations and operations, and of the Agency for International Development in its foreign aid program.

In all barter transactions, close attention is given to foreign policy considerations, balance-of-payment problems, and the state of the commodity markets. In an effort to safeguard usual marketings of the United States and to assure that barter transactions will not unduly disrupt world prices of agricultural commodities nor replace cash dollar sales, the Commodity Credit Corporation has established, and periodically revises, a list of countries to which specified commodities may be exported under the barter program. Any program restrictions are so framed and applied as to protect the assets of the CCC and to take advantage of the barter program's potential for improving the balance of payments position and for helping to accomplish other national objectives, such as assisting the economic development of less developed countries.

#### Barter Eligibility

Agricultural commodities available for barter are announced in the CCC Monthly Sales Lists. Strategic materials eligible in exchange are regularly announced in the USDA quarterly reports on the barter program, but between-reports announcements are published as additional materials are declared eligible. Spot announcements will be made as military offshore procurements become available for barter.

#### Acquisition and Sale of Cotton for Barter Purposes

On March 25, 1963, the New Orleans Office of the Agricultural Stabilization and Conservation Service issued the following announcements pertaining to cotton in the barter program: CN-EX-17, Acquisition of Upland Cotton for Export under Barter and Export Credit Sales Programs, and NO-C-21, Sale of Upland Cotton (For Barter and Credit

Sales). These announcements, together with the applicable barter contract, contain the terms and conditions under which the cotton will be acquired, sold and exported.

## Title IV, Long-Term Supply Contracts

The following outline of Title IV was prepared by FAS:

### Authority

Title IV provides for long-term supply and dollar credit sales of U.S. surplus agricultural commodities. Major objectives of this title are to stimulate and increase the sale of U.S. surplus agricultural commodities for dollars, utilize the financial resources made available through their sale on a deferred dollar payment basis to maximize dollar trade and to assist in the economic development of recipient friendly countries.

Under Title IV of PL 480, the U.S. Government may enter into an agreement with the government of any friendly nation for delivery of U.S. surplus agricultural commodities over periods up to 10 years. Commodities supplied under the agreements are for domestic consumption within the purchasing country. Credit periods of up to 20 years are authorized.

### Program Policies

Country Eligibility. Eligibility of countries for a Title IV sales program is generally determined on the basis of the country's financial status and its ability to undertake purchases of surplus agricultural commodities on a dollar basis. Due consideration is given to the use of the commodities and credit in connection with the country's economic development, the ability of the country to purchase commodities under a Title IV agreement without displacing commercial imports of the U.S. and other friendly supplying countries, and other relevant factors. In the case of countries which are otherwise eligible primarily for foreign currency rather than dollar credit sales programs under PL 480 but where, because of limited surplus supply of the commodity, the commodity can only be supplied under Title IV, both Title I and Title IV sales programs may be entered into.

Commodity Eligibility. As provided in Section 106 of PL 480, commodities eligible for Title IV programs are "...any agricultural commodity or product thereof, class, kind, type, or other specification thereof, produced in the United States, either privately or publicly owned, which is at the time of exportation...in excess of domestic requirements, adequate carryover, and anticipated exports for dollars, as determined by the Secretary of Agriculture." While agreements may provide for supply of surplus commodities for periods of up to 10 years, such commodities must be in surplus at the time deliveries are to be made.

Payment Period, Interest Rate and Payment Schedules. The payment period and interest rate are determined on a case-by-case basis, the general rule being that the payment period and interest rate are set in relation to the country's financial situation, stage of economic development and other similar factors. The legislation provides that payments in dollars may be made in reasonable annual amounts over periods not to exceed 20 years from the date of last delivery of commodities in each calendar year. Prepayment of principal and interest is permitted if the other government desires to retire the obligation at a faster rate. The initial payment with interest to date of payment may be scheduled as late as two years after the last delivery of commodities in each calendar year under the agreement.

The interest rate under Title IV sales agreements may not exceed the cost of funds to the U. S. Treasury (as of the date on which the agreement is signed). Interest rates are generally related to the country's financial situation. In the case of more highly developed countries with relatively favorable financial positions, the interest



rate is set at the cost of funds to the U.S. Treasury. In the case of developing countries, it is set in relation to the rate charged in dollar repayable loans for economic development made by the Agency for International Development to the government of the country. In the latter instance, the interest rate may be as low as  $\frac{3}{4}$  of 1% per annum and thus be comparable to those charged in the case of loans of local currencies under Title I, 104(g). Interest is charged on all shipments in each calendar year from the date of last shipment of any commodity under the agreement in such calendar year.

Shipping. Fifty percent of the volume of each commodity procured under Title IV are required to be shipped on U. S. flag vessels, pursuant to the provisions of Public Law 664. The costs of shipping on U. S. vessels are financed under the agreement and, except for any excess costs of shipping on U, S. flag vessels as compared with foreign-flag vessels, are included in the dollar repayments by the purchasing country.

Agreements. Title IV agreements set forth the commodity composition, financing terms and conditions, general undertakings and other requirements. Title IV programs, as appropriate, include provisions to assure that commercial exports of the United States will be maintained and that the supply of commodities under the agreement do not unduly disrupt world prices of agricultural commodities or normal patterns of commercial trade with friendly countries. The sales agreement also provides that the commodities purchased under the agreement are for domestic consumption within the purchasing country and shall not be transshipped or re-exported. As appropriate, agreements also provide for limitations on exports of the same or like commodities, or primary products thereof, during the period covered by the Title IV agreement.

As a general rule, negotiation of a Title IV agreement includes a formal understanding that the two governments shall agree on the use of the local currency proceeds from the sale of commodities under the agreement. In some cases, this mutual agreement on proceed uses is specifically set forth at the time the agreement is entered into. In others, only a general understanding is reached at the time the agreement is entered into that the two governments shall mutually agree on the use of the local currency sales proceeds with specific understandings for implementation of the general understanding to be worked out at a later date. These understandings, particularly in those instances where interest rates have been set at less than the cost of funds to the U. S. Treasury, generally would include specific understandings providing for mutual agreement with regard to interest rates and other terms of any relending to private or non-governmental entities of the local currency proceeds from the sale of Title IV commodities within the purchasing country.

#### Program Administration:

The Secretary of Agriculture is assigned primary responsibility for developing and administering Title IV programs. The Secretary of State is assigned the President's functions of negotiation and entering into agreements with friendly nations and also exercises his foreign policy responsibility in relation to these programs.

Within the Department of Agriculture, the Foreign Agricultural Service is assigned the primary responsibility for carrying out the Secretary of Agriculture's functions. The Fiscal Division of the Agricultural Stabilization and Conservation Service in Washington and the fiscal units of the Commodity Offices of this Service in the field carry out fiscal phases of Title IV operations.

Information with regard to Title IV program policies may be obtained from the Office of the General Sales Manager, Foreign Agricultural Service, U. S. Department of Agriculture, Washington 25, D. C.

#### General Operation of Program:

Subsequent to signing an agreement, the U. S. Department of Agriculture, upon application by the government of the importing country, issues purchase authorizations



for the purchase and financing of commodities included in the agreement. Importers authorized by the government of the importing country or a purchasing agency of the government, procures commodities directly from private U. S. suppliers. The latter would receive payment in dollars from the U. S. Department of Agriculture through U. S. banking channels. The Department of Agriculture notifies the other government of amounts financed in each calendar year and receives payment over the agreed upon period.

Program regulations are available from the Program Operations Division of the Foreign Agricultural Service, U. S. Department of Agriculture, Washington 25, D. C. Information may also be obtained from the Program Operations Division with regard to the issuance of purchase authorizations and related operational matters. Information with regard to issuance of letters of commitment and related financing matters may be obtained from the Fiscal Division of the Agricultural Stabilization and Conservation Service, Washington 25, D. C.

#### Title IV Regulations<sup>1</sup>

Title IV regulations are almost identical to those of Title I, except that future price fixation is not permitted.

### OTHER GOVERNMENT FINANCING

Two other means of government financing of cotton exports should be mentioned, i.e., the CCC Credit Program and Export-Import Bank credit.

#### CCC Credit Program<sup>1</sup>

This material was prepared by the Office of the General Sales Manager, FAS:

The CCC Export Credit Sales Program was set up under the authority of the CCC Charter Act. Under this program commodities in CCC inventory and tobacco under loan may be purchased by U. S. exporters on a deferred payment basis for periods up to 3 years. The commodities are sold and credit re-extended to importers abroad. For all purchases made under the program there is required an acceptable assurance of payment from a bank in the United States which may be arranged for by either the U. S. exporter or foreign importer. When applying for credit the exporter is required to state the extent to which the CCC credit benefits will be passed on to the foreign buyer(s).

The Department issued, on March 25, 1963, announcements No. C-21 and CN-EX-17 under which cotton may be purchased on CCC credit. These announcements permit substitution of an equivalent value of cotton. Cotton purchased from CCC under a CCC credit arrangement is priced at a minimum of 60 points above the higher of the domestic market price or price support plus reasonable carrying charges.

#### Export-Import Bank

The following material on cotton financing was prepared by the Export-Import Bank of Washington, Washington 25, D. C.:

#### Cotton Credits

One of the big operations of Export-Import Bank has been assisting the American farmer in selling his produce abroad. Cotton, wheat, and tobacco have been the principal commodity exports financed by the Bank, although the Bank is prepared to finance other commodities in surplus. The story of Eximbank's assistance to the U. S. cotton grower may best illustrate the manner in which the Bank is prepared to assist U. S. farmers generally.

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<sup>1</sup>Regulations change from time to time; therefore, for current information it is advisable to check with the proper divisions in FAS.

The Bank has engaged in financing exports of cotton from the United States almost from the time of its establishment in 1934. A number of credits were opened by the Bank during the years 1935-1940 to finance cotton shipments to European countries. This financing began on a relatively small scale and increased to substantial amounts in 1939 and 1940 with shipments to Italy, Poland, and Spain. Up to the middle of 1940, when these operations were brought to an end by the war, the Bank financed shipments to various European countries of 600,000 bales of cotton valued at more than \$30 million.

Eximbank's purpose in all cotton credits is to facilitate the export of United States cotton in situations where, because of temporary shortages of dollar exchange, credit terms longer than customary are required. The Bank has extended credits with maturities as long as 24 months in some instances in order to make possible the continuance of U. S. cotton shipments in the face of temporary exchange difficulties in foreign markets; the normal term of a commodity credit is 12 months.

Following the end of the war, the Bank began again to explore the need for its assistance in financing the export of cotton in the presence of surplus stocks in the United States and the prevailing world-wide shortage of cotton textiles. The Bank undertook to finance post-war cotton shipments in two ways: first, by permitting the use in part of the Bank's reconstruction credits to European countries to finance the purchase of U. S. cotton, and second, through the establishment of specific cotton credits on the general basis of pre-war cotton credits.

The much greater activity of the Bank in financing cotton in the post-war period has been under the credits established specifically to finance cotton designed to restore and maintain normal private trade in cotton. The credits are extended to foreign banks or foreign Government entities to which foreign mills and other importers apply for accommodations. The foreign importers make their purchases of cotton from private United States shippers and these transactions are then approved and guaranteed by the banks or the foreign Government entities for financing under the credit. United States shippers make their arrangements, in turn, with their own commercial banks. Terms and conditions of Eximbank cotton loans maintain the trade through private channels both in the foreign country and in the United States and also maintain the normal functions of the private banks in the countries concerned and in the United States.

Throughout the years since its establishment, the Bank has financed the export of 6 million bales of cotton through the methods mentioned above. This cotton was financed by the Bank under loans authorized totaling about \$1.1 billion.

# APPENDIX

COTTON: U.S. exports by country of destination, August-March, 1962-63, with comparisons  
(1,000 running bales)

Destination	Year beginning August 1				
	Average 1955-59	1960	1961	August-March	
				1961	1962
Austria.....	33	35	33	25	9
Belgium & Lux.....	160	179	100	74	59
Denmark.....	17	23	13	7	9
Finland.....	22	29	21	19	11
France.....	360	549	300	239	133
Germany, West.....	475	421	205	173	82
Italy.....	416	454	376	300	157
Netherlands.....	124	179	106	79	63
Norway.....	10	14	13	11	7
Poland & Danzig.....	85	228	139	19	7
Portugal.....	28	25	18	16	6
Spain.....	171	171	155	155	( <sup>1</sup> )
Sweden.....	75	101	99	86	44
Switzerland.....	64	99	75	69	33
United Kingdom.....	525	371	270	209	113
Yugoslavia.....	108	88	175	75	110
Other Europe.....	17	8	8	3	4
Total, Europe.....	2,690	2,974	2,106	1,558	847
Australia.....	54	49	64	43	25
Canada.....	217	259	397	281	181
Chile.....	35	51	12	11	14
Colombia.....	33	0	1	0	1
Cuba.....	27	2	0	0	0
Ethiopia.....	4	4	13	10	14
Hong Kong.....	134	219	104	84	57
India.....	184	599	215	25	98
Indonesia.....	30	36	46	33	27
Israel.....	16	9	10	6	5
Japan.....	1,154	1,746	1,028	768	645
Korea, Rep. of.....	205	195	300	166	130
Morocco.....	10	9	14	12	5
Pakistan.....	14	5	39	10	( <sup>1</sup> )
Philippines.....	64	149	142	84	77
South Africa.....	26	51	52	42	12
Taiwan (Formosa).....	153	176	256	133	120
Thailand.....	4	23	30	21	17
Uruguay.....	15	18	11	10	0
Venezuela.....	2	( <sup>1</sup> )	16	16	4
Vietnam <sup>2</sup> .....	2	26	30	29	29
Other countries.....	27	32	28	19	8
Total, world.....	5,100	6,632	4,914	3,361	2,316

<sup>1</sup> Less than 500 bales. <sup>2</sup> Indochina prior to 1958. Includes Laos and Cambodia.

Source: Cotton Division, FAS, from Bureau of Census records.

## COTTON STANDARDS

NOTE: The standards marked with an asterisk (\*) are descriptive.

The others are represented in physical form.

### OFFICIAL COTTON STANDARDS OF THE UNITED STATES FOR LENGTH OF STAPLE

(All American cottons)

#### Inches:

\*Below 13/16

13/16

7/8

29/32

15/16

31/32

1

1-1/32

1-1/16

1-3/32

1-1/8

1-5/32

#### Inches:

1-3/16

1-7/32

1-1/4

\*1-9/32

1-5/16

\*1-11/32

1-3/8 (types for American Upland and American Egyptian)

\*1-13/32

1-7/16 (types for American Egyptian only)

\*1-15/32

1-1/2 (types for American Egyptian and Sea Island only)

\*1-17/32

1-9/16 (types for American Egyptian and Sea Island only)

\*1-19/32

1-5/8 (types for American Egyptian and Sea Island only)

\*1-21/32

\*1-11/16

\*1-23/32

1-3/4 (types for American Egyptian and Sea Island only) and upward in steps of 1/32 inch. (No types above 1-3/4 inches)

### OFFICIAL COTTON STANDARDS OF THE UNITED STATES FOR THE GRADE OF AMERICAN UPLAND COTTON---

#### UNIVERSAL STANDARDS

##### White Cotton

\*Strict Good Middling

Good Middling

Strict Middling

\*Middling Plus

Middling

\*Strict Low Middling Plus

Strict Low Middling

\*Low Middling Plus

Low Middling

\*Strict Good Ordinary Plus

Strict Good Ordinary

\*Good Ordinary Plus

Good Ordinary

##### Light Spotted Cotton

\*Good Middling Light Spotted

\*Strict Middling Light Spotted

\*Middling Light Spotted

\*Strict Low Middling Light Spotted

\*Low Middling Light Spotted



Spotted Cotton

\*Good Middling Spotted  
Strict Middling Spotted  
Middling Spotted  
Strict Low Middling Spotted  
Low Middling Spotted

Tinged Cotton

\*Good Middling Tinged  
Strict Middling Tinged  
Middling Tinged  
Strict Low Middling Tinged  
Low Middling Tinged

Yellow Stained Cotton

\*Good Middling Yellow Stained  
\*Strict Middling Yellow Stained  
\*Middling Yellow Stained

Light Gray Cotton

\*Good Middling Light Gray  
\*Strict Middling Light Gray  
\*Middling Light Gray  
\*Strict Low Middling Light Gray

Gray Cotton

\*Good Middling Gray  
\*Strict Middling Gray  
\*Middling Gray  
\*Strict Low Middling Gray

Below Grade Cotton

\*Below Grade Cotton

OFFICIAL COTTON STANDARDS OF THE UNITED STATES FOR THE  
GRADE OF AMERICAN EGYPTIAN COTTON

Grade No. 1  
Grade No. 2  
Grade No. 3  
Grade No. 4  
Grade No. 5

Grade No. 6  
Grade No. 7  
Grade No. 8  
Grade No. 9  
\*Grade No. 10

OFFICIAL COTTON STANDARDS OF THE UNITED STATES FOR THE  
GRADE OF SEA ISLAND COTTON

Grade No. 1  
\*Grade No. 1-1/2  
Grade No. 2  
\*Grade No. 2-1/2  
Grade No. 3  
\*Grade No. 3-1/2

Grade No. 4  
\*Grade No. 4-1/2  
Grade No. 5  
\*Grade No. 5-1/2  
Grade No. 6  
\*Below Grade No. 6

World's Cotton Spindles as of December 31, 1961

1,000 spindles in place

North America:

Canada	797
El Salvador	73
Mexico	1,350
United States	19,561
Others	<u>261</u>
	22,042

Eastern Europe:

Bulgaria	<sup>1</sup> 400
Czechoslovakia	<sup>1</sup> 1,950
Germany, East	<sup>1</sup> 1,150
Hungary	<sup>1</sup> 582
Poland	<sup>1</sup> 2,019
Rumania	<u><sup>1</sup> 425</u>
	6,526

South America:

Argentina	1,050
Brazil	3,880
Chile	219
Colombia	485
Ecuador	88
Paraguay	(incl. in Others)
Peru	215
Uruguay	140
Venezuela	169
Others	<u>47</u>
	6,293

Asia & Oceania:

Australia	216 (June 30, 1961)
China (Mainland)	<sup>1</sup> 9,600
China (Taiwan)	450
Hong Kong	618
India	13,985
Indonesia	208
Iran	646
Iraq	52
Israel	246
Japan	13,319
Korea, South	479
Lebanon	<sup>1</sup> 75
Pakistan	1,998
Philippines	540
Syria	133
Thailand	90
Turkey	851
Others	<u>315</u>
	43,821

Western Europe:

Austria	565
Belgium	1,470
Denmark	95
Finland	253
France	5,467
Germany, West	5,817 (Sept. 30, 1961)
Greece	400
Italy	4,521
Netherlands	1,013
Norway	101
Portugal	1,125
Spain	2,471
Sweden	386
Switzerland	1,168
United Kingdom	9,465
Yugoslavia	<sup>1</sup> 420
Others	<u>85</u>
	34,822

Africa:

Ex-Belgian Congo	71
Ethiopia	79
South Africa	230
UAR (Egypt)	1,279
Others	<u>292</u>
	1,951

USSR: <sup>1</sup> 10,800

Total, World 126,255

<sup>1</sup> Partly estimated.

Source: Cotton World Statistics, Special Base Book, April 1963, International Cotton Advisory Committee





